2007/2008 : Report 1

OFFICE OF THE

Auditor General of British Columbia

Special Audit Report to the Speaker:

The Financial Framework Supporting the Legislative Assembly

April 2007

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The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
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Dear Sir:

I have the honour to transmit herewith to the Legislative Assembly of British Columbia my 2007/2008 Report 1: Special Audit Report to the Speaker: The Financial Framework Supporting the Legislative Assembly.

Arn Van Iersel, CGA
Auditor General (Acting)

Victoria, British Columbia
April 2007

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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Acting Auditor General's Comments

Arn van Iersel, CGA
Acting Auditor General

The Legislative Assembly of British Columbia consists of 79 elected members. Their main functions are to represent constituents' interests, debate and pass laws, scrutinize and approve budgets, and hold the government of the day to account for its performance in planning and delivering government services and programs.

The Legislative Assembly is unlike any government ministry or Crown corporation. Its operation and administration must be independent of the government of the day. In this regard, the Assembly does not follow the same financial management and administrative framework that government organizations must follow. However like any organization, it does need a control framework to manage its day-to-day business. Assessing such frameworks from time to time can provide information about their appropriateness and effectiveness.

In the summer of 2006, the Speaker of the Legislative Assembly asked our Office to review the financial framework administered by the Office of the Legislative Comptroller and provide assurance that the framework is sound. We agreed that the Financial Management Capability Model, as used by the Auditor General of Canada, provided an appropriate audit framework. From the model, we selected a capability level, called the Control Level. It represents the basic elements of a stable financial control framework. Our audit criteria were based on the goals for this Control Level.

In conducting our work, we reviewed relevant documentation and interviewed officers and staff of the Legislative Assembly and the Speaker and key personnel from both caucus offices. Our audit was to assess the financial framework itself — not its application. We therefore did not plan to test individual transactions unless issues were identified.

The financial framework is, in all material respects, sound

The Control Level of the Financial Management Capability Model includes eight key process areas. For the Legislative Assembly's financial framework to meet the Control Level, all eight key process areas need to be achieved.

We found that the financial framework in place fully achieved the audit criteria for one area and mostly achieved the audit criteria for the remaining seven. This led us to conclude that, while there

are some gaps, the financial framework used by the Office of the Legislative Comptroller materially meets the audit criteria and, therefore, the Control Level of the Financial Management Capability Model. Together with our recommendations for improvement, this provides the Speaker with assurance that the framework is, in all material respects, sound based on the audit criteria used.

We have identified some areas for improvement in the financial framework

For each of the seven key process areas we judged to be "mostly achieved," we also identified gaps in the framework that require attention. These relate to the need for:

- providing management with greater assurance about the effectiveness of the control framework in constituency offices;
- formalizing certain areas of the control framework;
- completing and testing Business Continuity and Disaster Recovery Plans;
- regularly auditing the operation of internal controls;
- clarifying reporting requirements to the Legislative Assembly Management Committee;
- formalizing strategic financial planning and monitoring; and
- developing better documentation for dealing with significant variances and changes to financial plans.

Many of the identified gaps relate to the informal nature by which some significant areas are dealt with and unclear or absent procedures or controls. Administrative support for the work of the Legislative Assembly is small compared with, say, a medium sized ministry or commercial Crown agency. This allows less significant matters to be dealt with simply and without the need for prescriptive procedures. However, it is still a $50 million operation and requires a certain level of formality to ensure an appropriate and continuing level of financial accountability, control and oversight.

We recommend that:

1. A suitable internal audit provider be engaged to examine and report periodically to senior management on the operation of financial controls across all Vote 1 expenditure areas, including constituency offices.
2. Clearer procedures, policies and guidelines for financial control be put in place, covering:
   - types and frequency of financial procedures to be performed, and financial control reports to be produced and reviewed by the senior management team; and
   - procedures for identifying, documenting and following up significant variances or changes to financial plans.
3. Business Continuity and Disaster Recovery Plans covering financial systems in the Legislative Assembly be completed and periodically tested.
4. Financial reporting requirements to the Legislative Assembly Management Committee be established and include regular reporting and discussion of actual and budget spending, as well as publicly available audited annual financial statements for Vote 1.
5. A more clearly documented process be put into place for the production and approval of the annual operating and capital budget, including the respective roles of senior management and Legislative Assembly Management Committee members.

Ensuring the highest continuing standards in financial accountability and control

Although I am pleased to be able to report that the financial framework supporting our elected representatives is materially sound, it is important to note that the criteria we used represent the basic acceptable level. Progression to a more advanced level of financial management capability would require additional improvements. Further development and maturing of the financial framework would help ensure that the Legislative Assembly

Acting Auditor General's Comments

attains the highest standards in financial accountability and control. We would be pleased to work with the Assembly in the future to achieve this goal.

In conclusion, I wish to thank everyone who cooperated with my Office to assist us in gathering the information for this audit. As well, I would like to acknowledge the hard work, professionalism and dedication of my staff in the production of this report.

Arn van Iersel, CGA
Acting Auditor General

Victoria, British Columbia
April 2007

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Background

Background

The Speaker of the Legislative Assembly, in the summer of 2006, asked the Acting Auditor General to review the financial framework in the Office of the Legislative Comptroller and to provide the Speaker with assurance that the framework used in British Columbia is sound. It was agreed that the most appropriate approach was to audit whether there was an effective financial management framework in place. Our work, however, did not include detailed testing of transactions.

The last report we issued in relation to Legislative Assembly finances was titled *Financial Administration of Vote 1* (January 2000). At that time, we did a study rather than an audit, reviewing the approval, monitoring and accountability arrangements for Vote 1 (which provides the Province with its finances to support the activities of elected Members of the Legislative Assembly [MLAs] in carrying out their duties). That review also looked at the role of the Legislative Assembly Management Committee in the financial administration of Vote 1. Appendix A here in this report presents a summary of recommendations from the 2000 report, together with management's assertions on actions taken to address these.

We agreed with the Speaker that the Financial Management Capability Model, used by the Office of the Auditor General of Canada, provided an appropriate audit framework for examining the financial framework in place. It is also flexible enough to accommodate the unique nature of the role performed by the Office of the Legislative Comptroller in supporting the work of the Legislative Assembly. As well, it allows for targeting improvements over time to higher levels of capability. Details of our audit approach are provided on pages 16–18.

Photo: Visions West Photography

Background

Office of the Legislative Comptroller: An Overview

Administration of the Legislative Assembly

Like any organization, the Legislative Assembly (and its committees) requires a wide range of support services. These in turn require a management framework to plan, control and monitor them. The Legislative Assembly, however, differs from more familiar management models, such as public corporations and government ministries. It is based on the "Westminster tradition" of government and therefore reflects 800 years of evolution. Members are referred to as "honourable members" — a term conveying an expectation that members will conduct themselves in a way that strengthens the public's trust and confidence in the integrity of the Legislative Assembly.

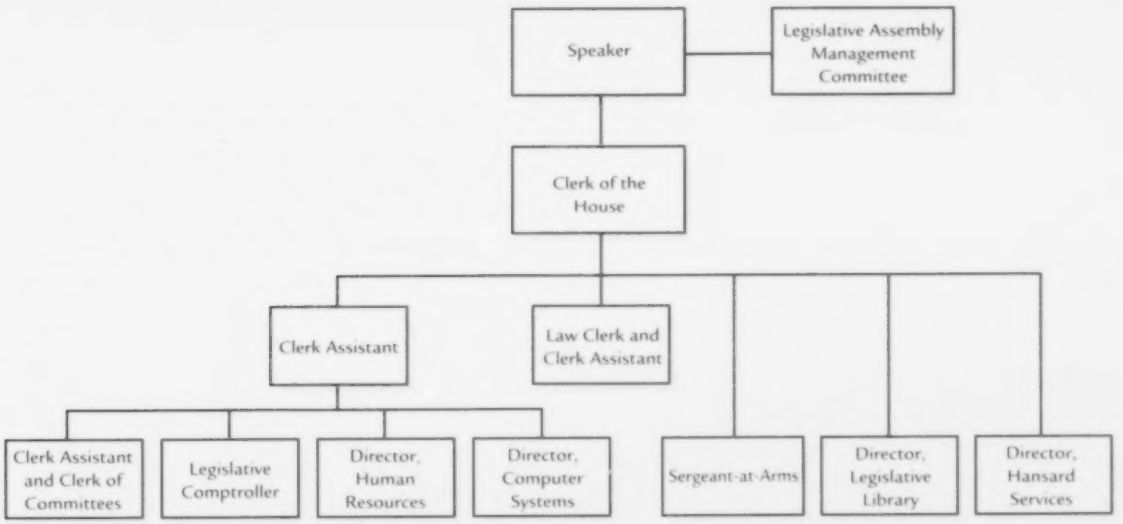
In supporting the operation of the provincial Legislature, its committees, and its 79 elected MLAs. Legislative Assembly officers and staff often have to take into account common-law tradition, historical custom and parliamentary convention. At the same time, they are responsible for prudently managing public resources and should follow recognized best practice within their relevant parliamentary and administrative disciplines.

The organization of the Legislative Assembly executive is shown at Exhibit 1.

Photo: Visions West Photography

Background

Exhibit 1: Organizational Structure of Legislative Assembly Executive



Source: Legislative Assembly, Province of British Columbia

The roles of key administrative individuals and groups in the Legislative Assembly are summarized below:

The Speaker of the Legislative Assembly

The Speaker is a critical and extremely influential figure in the Legislative Assembly. Elected by MLAs, the Speaker presides over debates and ensures the House follows proper procedure. The Speaker is neutral, only votes in the House if there is a tie, does not attend caucus meetings, and tries to balance the right of the majority to govern with the right of the minority to be heard.

The Speaker has a key role in the administration of the Legislative Assembly as chair of the Legislative Assembly Management Committee. This is entirely consistent with the Speaker's role in ensuring the smooth running of Legislative Assembly business.

Background

The Legislative Assembly Management Committee

Under the Legislative Assembly Management Committee Act, LAMC has the jurisdiction to deal with all matters affecting the general administration of the Legislative Assembly, including its finances. It is the governing body of the Assembly's administrative functions.

As well as the Speaker of the Legislative Assembly, other members include a Minister of Cabinet, the Government House Leader, the Chair of the Government Caucus, the Official Opposition House Leader and the Chair of the Official Opposition Caucus. If the Government House Leader is a Minister, as is typically the case, the Government Whip serves on the Committee as well. This provides the government side a majority as contemplated by the LAMC Act.

LAMC delivers an annual report to the Legislative Assembly that lists all decisions made by the Committee. Unlike other Committees of the Legislative Assembly, LAMC proceedings are not recorded by Hansard and verbatim transcripts are not available through the website of the Legislative Assembly. Minutes are approved by the Committee in a subsequent meeting and are then available upon request from the Clerk of the Legislative Assembly. At the time of our audit the most recent annual report available was for 2004/05.

(The LAMC Act is included at Appendix B.)

Administrative support for the work of MLAs is provided by the officers and staff of the Legislative Assembly. The senior permanent officer is the Clerk of the House.

The Clerk of the House

The Clerk is responsible for providing advice on parliamentary procedure to the Speaker and other Members of the Legislative Assembly as required and for maintaining all official House documents. The Clerk, as the senior officer, is also responsible for the administrative as well as procedural divisions that support the work of the Legislative Assembly.

Some of the administrative and procedural divisions report directly to the Clerk; others report to the Clerk Assistant.

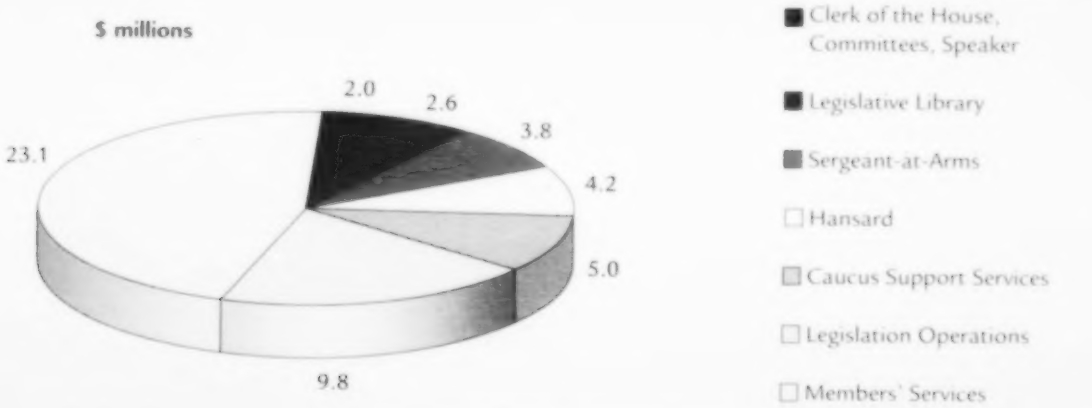
In addition, support is provided in varying degrees to:

- Offices of the Government Caucus and Official Opposition Caucus, and
- constituency offices of MLAs

The Legislative Assembly employs about 350 full-time equivalent (FTE) staff and, including member and caucus support, spends almost $50 million a year. A breakdown of budgeted expenditures for 2006/07 is provided in Exhibit 2, and a profile of expenditure by category from 2002/03 to the 2006/07 budget is provided in Exhibit 3.

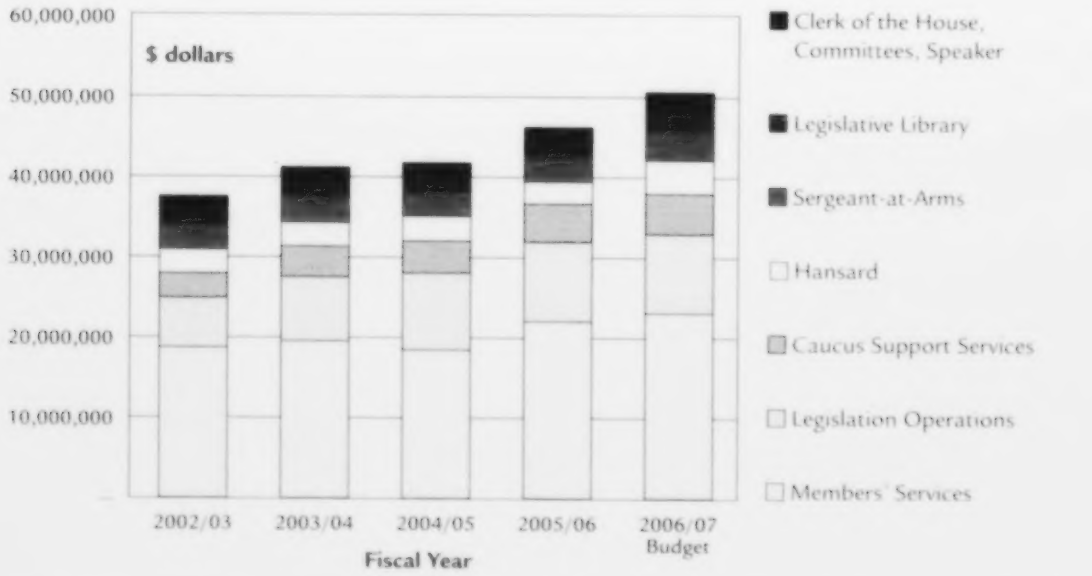
Background

Exhibit 2: British Columbia Legislative Assembly Budgeted Expenditure for 2006/07



Source: Compiled by the Office of the Auditor General of British Columbia

Exhibit 3: British Columbia Legislative Assembly Expenditures by Fiscal Year



Source: Compiled by the Office of the Auditor General of British Columbia

Actual expenditures across the four years, 2002/03 to 2005/06, increased by 27%. Within that period, however, certain costs fluctuated significantly. The timing of elections, the frequency of House sittings, and the level of Select Standing Committee and Special Committee activity all impact the level of expenditure. This is borne out by cost increases of 60% in Legislation Operations and 42% in Clerk of Committees. This period also saw small decreases in costs for Hansard (8%) and the Legislative Library (2%). Vote 1, which funds the activities of the Legislative Assembly and its Members, can be topped up by a statutory appropriation. This provides additional funding, without a dollar limit, when the original budget is used up. The reason for this practice is to avoid restricting the activities of the Legislative Assembly. (This is a characteristic of all Commonwealth jurisdictions.) The last occasion that the original budget was increased was for the fiscal year 2001/02.

The budget for each year is based on a combination of past experience and anticipated activity levels. The Legislative Assembly Management Committee has set limits on the two areas that receive services from Legislative Assembly staff, but do not come under the direct control of the Clerk:

- Members' Services — Each MLA has a finite annual allowance to spend on constituency business and travel. In addition, the lease costs of constituency offices are paid directly by the Office of the Legislative Comptroller.
- Caucus Support Services — The budget for each Caucus Office is determined by a formula, based on the number of members of that Caucus, with an adjustment for those who are Ministers and receive separate support.

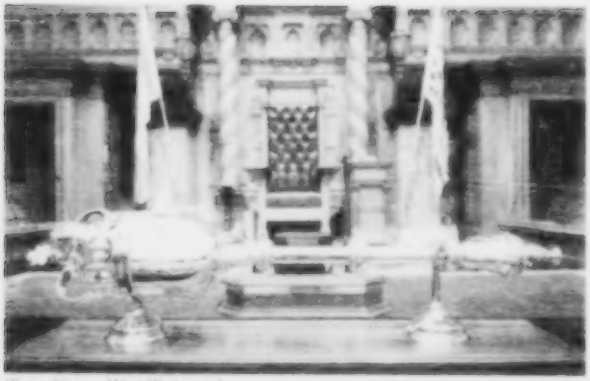


Photo: Visions West Photography

Background

Office of the Legislative Comptroller: An Overview

Duties of the Legislative Comptroller

- Advise the Clerk of the House, the Speaker and members of Legislative Assembly Management Committee on the finances of the Legislative Assembly and on the regulations and guidelines relating to MLA expenditures.
- Ensure that adequate financial and accounting policies and systems are in place.
- Oversee the processes for budgeting, financial forecasting, expenditure control, cost-benefit analysis and reporting, in keeping with generally accepted accounting principles and practices.
- Develop, implement and manage financial management audit plans, including implementing any remedial action required.
- Guide the management of expenditure, payroll and leave in relation to MLAs, and caucus and constituency staff, providing advice as required.
- Meet the Legislative Assembly's financial reporting requirements for the Public Accounts.
- Direct the work of the Manager, Accounting Operations and the Manager, Food Services (Legislative Assembly dining room).

The Legislative Comptroller acts as the Legislative Assembly's Senior Financial Officer. The duties of this position are listed in the sidebar.

Unlike Senior Financial Officers in government, the Legislative Comptroller is not required to comply with most provincial financial legislation or regulations. Rather the Legislative Assembly is independent of the Executive, or Government, of the Province. The financial framework used within the Legislative Assembly, and administered by the Legislative Comptroller, does not fall under the authority of government ministers or public servants within government.

While the financial framework might draw on guidance issued by government, there is no requirement for it to use the same systems, policies or procedures. The main legislation governing the work of the Legislative Comptroller is the Legislative Assembly Management Committee Act. In large part, the position involves making recommendations that reflect both decisions of the Management Committee and the individual's professional judgement on matters related to accounting and financial management practices.

Because the Legislative Assembly's financial management framework is not affected by financial legislation such as the Financial Administration Act or the Budget Transparency and Accountability Act, it is critical that whatever framework is in place be clearly defined and in line with accepted financial management principles and practices.

Under the Legislative Assembly Management Committee Act, the Auditor General can examine the finances of the committee, or any matter considered to be in the public interest in relation to the committee's powers and duties, and report to the Speaker or Legislative Assembly as appropriate.

Background

Financial Management: An Overview

As with all activities, financial management should be cost-effective and appropriate with respect to the level of risk that controls are there to address.

All public sector entities, regardless of their size, are entrusted with public resources that they must manage with prudence, probity and due regard for economy, efficiency and effectiveness. Today, the demand for complete, accurate and timely financial information is great — and when it is combined with meaningful performance information, it allows management, the public and their elected representatives to put the cost of public spending in perspective.

Financial management is an integral part of an effective management framework that helps organizations effectively achieve their objectives and account for the cost of doing so. Management is responsible for determining the appropriate level of financial management capability, and for putting the processes and practices in place to achieve and maintain that capability.

However, the level of financial management capability required for the Legislative Assembly is not always the same as for a large ministry or Crown agency.

In 1996, the Office of the Auditor General of Canada started a study of current and future financial management requirements of federal government departments and agencies. This was to address a long-standing priority to encourage better financial management in government. The objective of the study was to build a modern framework that would describe the key elements needed by departments and agencies to achieve effective financial management — a framework that today provides a basis for assessing the current state of their financial management.

When the federal Office of the Auditor General started developing the Financial Management Capability Model, it began by defining financial management (see sidebar). Good financial management, however, is more than just the sum of the pieces. Effective management of an organization overall needs financial management and other components of organizational control to work together.

The objectives of financial management are to:

- provide managers with support for decision-making;
- ensure that timely, relevant and reliable information is available;
- contribute to risk management;
- help in the efficient, effective and economical use of resources;
- allow managers to account for their use of resources;
- establish a supportive control environment; and
- enable the organization to comply with authorities and safeguard its assets.

Three essential elements make up financial management:

- risk management and control, including an environment that communicates the purpose, values and ethics of the organization;
- information, including the management of information systems, and financial and non-financial performance information; and
- management of resources; including strategic planning, analysis and support for decisions.

Source: Auditor General of Canada

The Financial Management Capability Model

The Financial Management Capability Model is a framework that describes the key elements of effective financial management. It sets out the path that an organization can follow to develop from the level of a start-up body through to a more mature, complex organization with strong, effective, financial management capabilities. The model is organized into five progressive "capability levels," as shown in Exhibit 4. Each level represents a well-defined stage towards developing a level of financial management capability associated with a more mature and complex organization. Levels II through V represent an acceptable control framework, depending on the size and complexity of the organization.

Background

Exhibit 4: The Five Levels of the Financial Management Capability Model

The five levels of the Financial Management Capability Model are:

I. **Start-up** – Key policies and practices or a control framework are not established.

II. **Control** – A control framework that provides a stable environment is in place.

III. **Information** – Financial and non-financial frameworks work together to manage resources better and reduce risk.

IV. **Managed** – Information is used to balance competing objectives.

V. **Optimizing** – Information is used for continuous improvement.

(Only the levels below the line represent an acceptable control framework.)

Each level consists of a cluster of "key process areas," which in turn consists of a purpose and one or more goals. Full details of the model and the five capability levels are available on the Office of the Auditor General of Canada's website at http://www.oag-bvg.gc.ca/domino/other.nsf/html/99cmtoce.html.

Audit Scope and Methodology

The objectives of our audit were to:

- assess the financial framework employed by the Office of the Legislative Comptroller against the Financial Management Capability Model; and
- report our findings (including strengths and gaps) and recommendations for improvement to the Speaker.

In deciding which level of the model to use, we took into consideration the Speaker's desire for us to assess whether the financial management framework being used was sound, as well as the relatively small size and lack of complexity of the Assembly's operations. We identified the Control Level as the appropriate one against which to assess the financial framework, as it represents the basic elements of a stable control framework.

The Control Level is made up of eight key process areas:

1. Control Environment
2. Internal Controls Management
3. Data Management
4. General Accounting
5. Stewardship Reporting
6. Planning and Budgeting
7. Funding
8. Operations Control

From the goals set in the model for each key process area, we developed our criteria for this audit. These are detailed in Appendix C. We also developed more detailed sub-criteria with the approval of the Clerk and Legislative Comptroller. We used these to guide our fieldwork.

In addition, to verify that our proposed approach covered the key elements of a control framework, we referred to the Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. COSO is a voluntary organization dedicated to improving the quality of financial reporting through business ethics, effective internal controls, and corporate governance.

In conducting this audit—which we did between September 2006 and February 2007—we reviewed relevant documentation. As well, we interviewed officers and staff of the Legislative Assembly, the Speaker to the Legislative Assembly, the Chair and senior manager of the Government Caucus, and managers from the New Democrat Opposition Caucus.

We limited the scope of the audit to that of assessing the financial framework employed. We did not confirm through detailed testing the extent to which the financial framework was being applied. Our audit therefore did not test individual transactions, although detailed testing could have been used had the results of our planned audit work not confirmed the adequacy of the financial framework in place.

We also did not conduct a detailed follow-up on the Vote 1 study we reported in 2000. We have, however, included a self-assessment (see Appendix A), prepared by officers and staff of the Legislative Assembly of the actions taken in response to our recommendations in that report. There are no assertions contained in the self-assessment that we disagree with as a result of our audit work.

We performed our work in accordance with the standards for assurance engagements and the standards for value-for-money auditing in the public sector issued by the Canadian Institute of Chartered Accountants, and included such tests and other procedures we considered necessary to obtain sufficient evidence to support our conclusions. Further information on our auditing standards can be found at Appendix D.

Detailed Report

Under the Financial Management Capability Model, an organization can reach a desired level of financial management by mastering all of the key process areas at that level. Thus, for the financial framework used by the Office of the Legislative Comptroller to achieve the Control Level, the requirements for all eight key process areas must be met.

Below, we give our overall audit conclusion as to whether the Control Level has been achieved, followed by our audit conclusion for each key process area. Our key findings, together with recommendations for improvement, are detailed later.

Overall Conclusion

Our audit conclusions for individual key process areas (pages 22–24) have identified a number of areas for improvement in the financial framework. These gaps were not material, individually or collectively, within each process area. As a result we concluded that the financial framework employed by the Office of the Legislative Comptroller materially meets the audit criteria — and therefore Control Level 2 of the Financial Management Capability Model (see page 16). The gaps identified need to be addressed before the framework fully meets the criteria of the Control Level. For the financial framework to advance beyond the Control Level of the Financial Management Capability Model, further strengthening of the framework is required.

Our Audit Conclusions by Key Process Area

Our conclusions for all eight key process areas are shown in Exhibit 5.

Exhibit 5: Summary of Audit Conclusions by Key Process Area

	Audit Criteria Results		
Key Process Area	Not Achieved	Mostly Achieved	Fully Achieved
1. Organization Control Environment			
2. Internal Controls Management			
3. Data Management			
4. General Accounting			
5. Stewardship Reporting			
6. Planning and Budgeting			
7. Funding			
8. Operations Control			

Source: Compiled by OAG BC

1. Control Environment

The organizational control environment is fundamental to any organization's ability to reach the appropriate level of financial management capability and achieve its objectives. Such an environment helps an organization achieve its control objectives, through a shared understanding of what those objectives are and a shared commitment to achieving them.

Audit Conclusion—*While there needs to be greater assurance available to management over the effectiveness of the control framework in constituency offices, the audit criteria for this key process area have been mostly achieved.*

2. Internal Controls Management

Internal controls management is important for establishing a framework designed to provide an organization's management with reasonable assurance that:

- transactions are complete, accurately recorded and timely;
- assets are safeguarded and protected from fraud and losses of all kinds; and
- resources are received and used in accordance with applicable laws and regulations.

Audit Conclusion—*While certain areas of the control framework need to be more formal, the audit criteria for this key process area have been mostly achieved.*

3. Data Management

Data management is needed to control and safeguard an organization's financial and non-financial data, to ensure its integrity, reliability and availability. This involves putting a control structure in place to manage and manipulate data.

Audit Conclusion—*Although Business Continuity and Disaster Recovery Plans have not been completed or tested, the audit criteria for this key process area have been mostly achieved.*

4. General Accounting

At the Control Level, general accounting controls should ensure that an organization maintains records of its financial transactions, and that those records are accurate, complete and timely.

Audit Conclusion—*Although not all activities are performed regularly, the audit criteria for this key process area have been mostly achieved.*

Detailed Report

5. Stewardship Reporting

Stewardship reporting is important to meet an organization's legislative or statutory reporting requirements, and to support decision-making by requiring managers to account for their use of resources through financial reports that are accurate and reliable.

Audit Conclusion—*Although reporting requirements need to be clarified, the audit criteria for this key process area have been mostly achieved.*

6. Planning and Budgeting

Planning and budgeting supports an organization's strategic planning, decision-making and accountability by enabling managers to plan for the resources needed to deliver a product or service.

Audit Conclusion—*Although more formality and processes are needed around strategic financial planning and monitoring, the audit criteria for this key process area have been mostly achieved.*

7. Funding

It is important for an organization to have sufficient funds to carry out its mandate and meet its operational requirements.

Audit Conclusion—*In keeping with the funding arrangement for the Legislative Assembly, the audit criteria for this key process area have been fully achieved.*

8. Operations Control

Through operations control, an organization can make adequate resources available to achieve planned results.

Audit Conclusion—*Although more documentation is needed for dealing with significant variances and changes to financial plans, the Legislative Assembly's operations are relatively small. Thus, the audit criteria for the key process area have been mostly achieved.*

Detailed Report

Main Findings

Our audit conclusions by individual key process area identify several areas for improvement in the existing financial framework. The gaps identified, their implications, and our recommendations for addressing the gaps are outlined below.

1. *Management needs greater assurance about the effectiveness of the control framework in constituency offices.*

Earlier in this report, we discussed the distribution of the Legislative Assembly's costs. Members Services — including MLA indemnities and allowances and the cost of running MLA constituency offices — accounts for $22.1 million, or 48%, of the total costs. Of this, 90% by value ($20 million) of payments are made through Legislative Assembly systems. For example, Legislative Assembly staff process MLA salaries, eligible travel expenses and office rental payments.

We found that some of the controls for a large proportion of payments are located within constituency offices. For example, while most constituency offices pay their staff through Legislative Assembly systems, the hiring of staff is handled locally.

Almost 10% ($2 million) of the Members Services budget is wholly administered by constituency offices, with payments made from their own bank accounts. These payments therefore fall outside the framework directly administered by the Office of the Legislative Comptroller.

Although constituency offices are operationally independent from the Assembly, they are required to comply with financial procedures approved by the Legislative Assembly Management Committee and issued by the Office of the Legislative Comptroller. The Members' Administration Manual authorizes the Legislative Comptroller to visit constituency offices and audit financial records, but this authority has not been exercised to date.

In our view, the absence of compliance visits by the Legislative Comptroller (or any other suitably qualified professional) denies senior management and the Legislative Assembly Management Committee appropriate assurance that the control framework is operating as intended within constituency offices for these public resources.

2. *Certain areas in the control framework need to be more formal.*

Internal control currently exists through various control (i.e., procedure) manuals issued by the Office of the Legislative Comptroller and other administrative divisions of the Assembly. Management and staff appear to understand the controls for their own areas of responsibility, and the organization is small enough that a certain level of informality appears appropriate. However, we found no policies or guidelines on control. Furthermore, control reports, including exception reports, are not discussed by senior management. While some senior managers appear to monitor financial controls within their own responsibility areas, we found no complementary mechanisms, such as internal audit, to allow senior management or the Legislative Assembly Management Committee to obtain assurance that controls are operating as intended across the Legislative Assembly.

3. *Business Continuity and Disaster Recovery Plans need to be completed and tested.*

Electronic data is required to be regularly backed-up and stored off-site to avoid the permanent loss of critical information. However, we found that while Business Continuity and Disaster Recovery Plans have been drafted, these are currently incomplete and have not been tested. Therefore, while data might be available if a major disaster were to interrupt the business of the Assembly, clear contingency arrangements are not in place to ensure that financial or other systems remain available. Such work could range from getting the computer network and applications working again to paying the salaries of MLAs, Legislative Assembly, and caucus and constituency staff.

4. *Not all general accounting activities are performed regularly.*

The Office of the Legislative Comptroller is responsible for the approval and processing of payments, but final payment is made from a bank account administered by Treasury Board. While there appears to be a good level of control over the approval of payments, we also found that reconciliations between the general ledger and bank records have not been performed by Legislative Assembly staff since May 2005. That this omission has continued for so long highlights the fact that the work of the Office of the Legislative Comptroller is not audited. Regular review of financial controls,

by either internal or external auditors, would have highlighted this to senior management and the Legislative Assembly Management Committee.

The requirement to perform bank reconciliations is included in the relevant job description for finance staff, but we note that procedures such as this are not contained in a central financial procedures manual.

5. *Reporting requirements to the Legislative Assembly Management Committee need to be clearer.*

Under the main legislation pertaining to the financial management framework—the Legislative Assembly Management Committee Act—the Legislative Assembly is not required to comply with other provincial legislation, such the Financial Information Act, the Financial Administration Act or the Budget Transparency and Accountability Act. As a result, the Assembly is not required to publish annual service plans, annual audited financial statements, or service plan reports, as ministries and many Crown agencies must.

The Legislative Assembly Management Committee Act gives the committee the jurisdiction to act in a financial oversight role, yet it was not clear to us was what should specifically and regularly be reported to and approved by the committee. Section 5(4) of the Act requires the committee to "have its accounts or financial procedures examined and reported on each fiscal year by a qualified person or firm appointed by the committee." However, because the committee has no separate accounts, the only meaningful objective would be the audit of the accounts of the Legislative Assembly. Currently no annual financial statements for the Legislative Assembly are prepared or audited beyond the total Vote 1 budget and actual figures included within the Province's annual Summary Financial Statements.

The annual budget is approved by the Legislative Assembly Management Committee (or, presumably by the Speaker on its behalf), but the committee does not receive regular reports on actual expenditure against budgeted expenditure, with explanation of significant variances.

6. *More formality and process are required around strategic financial planning and monitoring*

Compared with that in most ministries and many Crown agencies, the annual budget for the Legislative Assembly is small. A relatively small senior management team, located on one site, meets regularly, as well as carrying out informal discussion of day-to-day management issues. In some ways, this provides a level of real-time control that larger organizations may struggle to achieve. However, such informality can also result in financial control being too reliant on the integrity and experience of key individuals. In this type of situation informality and trust replace clear procedures and evidence of due process. A risk is that when those individuals leave, the lack of formal procedure may result in the breakdown of financial control.

We found clear procedures for how administrative divisions should compile the budget, as well as the regular reporting to individual senior managers of actual spending against budget. There were, however, no clear procedures for approval of the overall annual budget or for regular monitoring and reporting of actual to budget spending by the senior management team or by the Legislative Assembly Management Committee.

In practice, the budget is normally reviewed by the Clerk Assistant, the Clerk of the Legislative Assembly, and the Speaker. It is then finally approved by the Legislative Assembly Management Committee. The budget for 2005/06, we note, was approved on behalf of the committee by the Speaker. We found no clear procedure for the approval of the budget and no clear role in this for senior management as a team. Variances of actual costs from budget estimates are also dealt with in an informal manner. There is little formal reporting to, or discussion by, either the senior management team or the Legislative Assembly Management Committee.

The lack of formal strategic planning and reporting (through, for example, annual service plans and reports) adds another layer of informality, as there is no strategic framework within which financial planning, monitoring and accountability take place.

During the course of our work, it came to our attention that the Speaker, Clerk and the Legislative Assembly Management Committee have been involved in the initial conceptual design stages for a significant multi-year infrastructure renewal and replacement program for the legislative precinct. Our audit did not include any assessment of this proposed project, however the size and complexity of this undertaking underscores the need to consider taking a more strategic focus, and enhancing financial governance, monitoring and control.

7. *More documentation needs to be developed for dealing with significant variances and changes to financial plans.*

This issue is similar to our second finding, above. The small size of the organization means that matters are often dealt with quickly and informally. Of concern to us, is the lack of documented procedures detailing how the senior management team deals with more significant variances or changes to financial plans. This is especially important where variances or changes to plans are outside the control of one service division and impact on other service divisions.

Our Recommendations

To address our key findings, we make the following recommendations.

We recommend that:

1. A suitable internal audit provider be engaged to examine and report periodically to senior management on the operation of financial controls across all Vote 1 expenditure areas, including constituency offices.
2. Clearer procedures, policies and guidelines for financial control be put in place, covering:
   - types and frequency of financial procedures to be performed, and financial control reports to be produced and reviewed by the senior management team, and
   - procedures for identifying, documenting and following up significant variances or changes to financial plans.
3. Business Continuity and Disaster Recovery Plans covering financial systems in the Legislative Assembly be completed and periodically tested.
4. Financial reporting requirements to the Legislative Assembly Management Committee be established and include regular reporting and discussions of actual to budget spending, as well as publicly available audited annual financial statements for Vote 1.
5. A more clearly documented process be put into place for the production and approval of the annual operating and capital budget, including the respective roles of senior management and Legislative Assembly Management Committee members.

Response from the Speaker of the Legislative Assembly

Response from the Speaker of the Legislative Assembly

The Speaker

The Honourable Bill Barisoff

Legislative Assembly
of British Columbia

April 16, 2007

Mr. Arn van Iersel
Acting Auditor General
8 Bastion Square
Victoria, B.C.
V8V 1X4

Dear Mr. van Iersel:

Thank you for presenting the Legislative Assembly with the Auditor General's "Special Audit Report to the Speaker: *The Financial Framework Supporting the Legislative Assembly*."

I am pleased that, at the conclusion of your extensive audit work, you find the financial framework at the Legislative Assembly to be, in all material respects, sound.

Your report recognizes the distinct operational environment of the Assembly, its independence from government, and the fact that it functions within a different financial management and administrative framework than that of government. We take your recommendations under advisement, and assure you that we will strive for continuous improvements in our financial operations.

We would like to thank the audit team - Bill Gilhooly, Malcolm Gaston, Marshall Petrie, and Jennifer Paget - for their thorough and respectful approach to the work.

Yours sincerely,

Hon. Bill Barisoff
Speaker

Phone: 250 387-3952 Fax: 250 387-2813 e-mail: Speaker@leg.bc.ca

Room 207, Parliament Buildings, Victoria, British Columbia, Canada V8V 1X4

Appendices

Appendix A: Action Taken on 2000 Auditor General Report: Financial Administration of Vote 1

The table below is a self-assessment by officers and staff at the Legislative Assembly. There are no assertions that we disagree with as a result of our audit work.

Recommended that:	Response
1. LAMC meet to review and approve, or arrange to have approved, the Vote 1 estimates each year. It should also specify review and approval procedures to cover those times it is itself unable to meet.	The Vote 1 estimates have been approved by LAMC every year since the receipt of the report, except for 2005/06, as noted in this report, where it was approved by the Speaker on behalf of the Committee.
2. If the Vote 1 estimates are approved other than by the full LAMC (i.e., by subcommittee of LAMC), a record of the approval should be kept and reported to the committee at its next meeting, and recorded in its minutes.	See 1. above.
3. LAMC ensure that all of its decisions having financial implications be taken fully into account when determining the Vote 1 estimates.	The Vote 1 estimates include allocations for all LAMC decisions having financial implications.
4. LAMC consider changing its procedures so that its decisions can be promptly communicated.	This is done either through the Speaker to all members or through caucus chairs to their respective members.
5. LAMC be provided with regular reports comparing the actual year-to-date expenditures, and projected fiscal year expenditures, with the estimates.	LAMC relies on the Clerk and/or the Legislative Comptroller to bring concerns to the fore.
6. When it becomes apparent that the expenses of the Legislative Assembly will exceed the funds appropriated in Vote 1, LAMC meet and consider what courses of action are open to it.	LAMC relies on the Clerk and/or the Legislative Comptroller to bring concerns to the fore.
7. Use of the statutory expenditure appropriation (when it occurs) be approved by LAMC, or its delegate.	See 1. and 2. above.
8. The Legislative Comptroller give formal assurance to LAMC on a regular basis throughout the year that no expenditure limits set the committee have exceeded or, if that is not the case, report promptly to the committee the specific instances where a limit has been exceeded.	LAMC relies on the Legislative Comptroller to bring concerns to the fore.
9. When LAMC-set expenditure limits are, or are about to be, exceeded, LAMC meet to consider what action to take.	See 6. above.
10. LAMC specify the extent of authority that the Speaker or other delegate can exercise on its behalf in situations involving LAMC-set expenditure limits, when it is unable to meet.	See 1. above.

Appendix A

Recommended that:*	Response
11. LAMC provide an annual public report on the reasons for variances between budgeted and actual amounts in Vote 1 expenditures.	The financial information for the Legislative Assembly appears in the Public Accounts. A large component of Vote 1 is formula driven without relation to anticipated work to be performed by Members. This Member workload (proposed legislation, committee work, etc.), however, has an impact on the expenditures of certain Legislative branches (e.g., Committees, Hansard, etc.). As a consequence, it is not practical to attempt to explain variances between actual expenditures and budgets developed by formula.

Appendix B: The Legislative Assembly Management Committee Act

Appendix B

LEGISLATIVE ASSEMBLY MANAGEMENT COMMITTEE ACT

CHAPTER 258

[Updated to August 17, 2004]

Contents

Section

1 Definitions
2 Continuation of the committee
3 Powers and duties of the committee
4 Powers and duties of the Speaker
5 Proceedings and business
6 Dissolution of Legislative Assembly
6.1 Appropriation
7 Conflicts
8 Power to make regulations

SCHEDULE

Definitions

1 In this Act:

"**additional party**" means a political party with 4 or more members in the Legislative Assembly but does not include the government party or official opposition party;

"**chair of the Government Caucus**" means the member of the Legislative Assembly designated as such by the government party;

"**chair of the Official Opposition Caucus**" means the member of the Legislative Assembly designated as such by the official opposition party;

"**committee**" means the Legislative Assembly Management Committee continued by section 2;

"**Confederation Garden Park**" means the park described in the Schedule;

"**Government House Leader**" means the member of the Executive Council named as such by the Premier;

"**legislative grounds**" means the area bounded by Belleville, Menzies, Superior and Government Streets in the City of Victoria, British Columbia;

"**Legislative Precinct**" means

(a) the Parliament Buildings,

(a.1) the legislative grounds and Confederation Garden Park,

Appendix B

(b) other buildings in Victoria or parts of them that are from time to time occupied and used by members of the Legislative Assembly for the purpose of their parliamentary duties including any premises from time to time occupied by officers and staff of the Legislative Assembly, and

(c) other land or buildings or both, other than constituency offices, designated by minute of the committee;

"**Opposition House Leader**" means the member of the Legislative Assembly named as such by the Leader of the Official Opposition;

"**Speaker**" means, subject to section 6, the person holding office as such under section 37 of the *Constitution Act*.

Continuation of the committee

2 (1) The Legislative Assembly Management Committee is continued consisting of the following members of the Legislative Assembly:

(a) the Speaker;

(b) the minister;

(c) the Government House Leader;

(d) the chair of the Government Caucus;

(e) the Opposition House Leader;

(f) the chair of the Official Opposition Caucus;

(g) one member appointed from each additional party by the members of that party;

(h) for each member appointed under paragraph (g) one additional government member from the Government Caucus appointed by the Government House Leader.

(2) The members of the committee referred to in subsection (1) (g) and (h) must be appointed within 45 days from the general voting day for the general election that preceded the Parliament.

(3) The first meeting of the committee must be held within 14 days of the appointment of the members referred to in subsection (1) (g) and (h).

(4) A member of the committee referred to in subsection (1) (b) to (h) may appoint a designate to take the member's place at a meeting of the committee.

(5) The Speaker is the chair of the committee and in the Speaker's absence the Deputy Speaker may act as chair and, with respect to the business of the committee, exercise the powers of the Speaker.

(6) A quorum of the committee is 5 members of the committee consisting of

(a) the Speaker, or in the Speaker's absence, the Deputy Speaker,

(b) 3 of the persons referred to in subsection (1) (b), (c), (d) or (h), and

(c) one of the persons referred to in subsection (1) (e), (f) or (g).

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(7) Each member of the committee other than the chair has a vote, and if the votes are equal the chair has a deciding vote.

(8) The members of the committee or their designates must attend all meetings of the committee as and when called by the chair, unless prevented from doing so by illness or for other unavoidable reason.

Powers and duties of the committee

3 (1) The committee has jurisdiction to deal with all matters affecting

(a) subject to any other enactment and any rules of conduct established by the Legislative Assembly, policies for the administration of the Legislative Assembly and for the conduct of the members of the Legislative Assembly,

(b) the provision of facilities and services, including allocation within the Legislative Precinct, that are required for the effective functioning of the Legislative Assembly,

(c) the appointment, supervision and management of staff of the Legislative Assembly, other than permanent officers of the Legislative Assembly,

(d) review of estimates of expenditure for the Legislative Assembly for Vote 1 including the preparation of forecasts and analyses of expenditures and commitments of the Legislative Assembly,

(d.1) payments of basic compensation and Capital City allowance to members of the Legislative Assembly,

(d.2) payments of salaries to one or more of the members referred to in subsection (1.1),

(d.3) the establishment of a voluntary group registered retirement savings plan for members of the Legislative Assembly,

(e) payments to members of the Legislative Assembly to defray expenses in the performance of their duties including

(i) expenses for residence in Victoria during the legislative session and for any additional periods specified by the committee, and

(ii) other expenses associated with travel, service on legislative committees when the Legislative Assembly is not in session and protocol expenses,

(f) payments or services to members for constituency offices, including payments or services for staffing, maintaining the offices, communication expenses and travel expenses, and

(g) other matters necessary for the efficient and effective operation and management of the Legislative Assembly.

(1.1) The committee must determine the salaries payable to the following members of the Legislative Assembly:

(a) the Speaker;

(b) the Deputy Speaker;

(c) the Deputy Chair, Committee of the Whole;

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(d) the Leader of the Official Opposition;

(e) the Leader of a recognized political party other than the government or opposition;

(f) the Government Whip;

(g) the Deputy Government Whip;

(h) the Opposition House Leader;

(i) the House Leader of a recognized political party other than the government or opposition;

(j) the Official Opposition Whip;

(k) the Party Whip of a recognized political party other than the government or opposition;

(l) the Government Caucus Chair;

(m) the Official Opposition Caucus Chair;

(n) the Caucus Chair of a recognized political party other than the government or opposition;

(o) the Chair of Select Standing or Special Committees.

(1.2) Despite the *Income Tax Act*, a Capital City allowance payable to a member under subsection (1) (d.1) is deemed not to be wages within the meaning of that Act, and not to form part of the income of that member for any purpose of that Act.

(2) Subsection (1) (b) does not empower the committee to allocate space or provide services within the Legislative Precinct that are necessary for

(a) ministerial offices,

(b) ministerial administration and support staff, or

(c) the functioning of the Executive Council.

Powers and duties of the Speaker

4 (1) Subject to any direction of the committee, the Speaker is responsible for the day to day administration of the Legislative Assembly.

(1.1) In accordance with the regulations, the Speaker is responsible for the

(a) provision of security within the Legislative Precinct, and

(b) management of the use and enjoyment of the Legislative Precinct by the public and by other persons.

(2) The committee may delegate any of its powers to the Speaker.

Proceedings and business

5 (1) The committee may determine its own procedures.

(2) The committee speaks by minute duly adopted by the committee.

(3) The committee may authorize payment of reasonable and actual expenses incurred by its members.

(a) for attendance at meetings of the committee while the Legislative Assembly is adjourned or prorogued, or

(b) while engaged in the work of the committee while the Legislative Assembly is adjourned or prorogued.

(4) The committee must have its accounts or financial procedures examined and reported on each fiscal year by a qualified person or firm appointed by the committee.

(5) A member of the public service is not eligible to be appointed under subsection (4).

(6) The Auditor General may examine the accounts and financial procedures of the committee and report to the Speaker at the times that the Auditor General considers appropriate.

(7) Subsection (6) does not restrict the Auditor General from reporting to the Legislative Assembly on any other matter that the Auditor General considers to be in the public interest including the matters within the jurisdiction of the committee under section 3.

(8) The committee must promptly file its minutes and the reports referred to in subsections (4) and (6) with the Clerk of the Legislative Assembly who must

(a) make the minutes and reports available to any person for inspection without charge and during normal business hours, and

(b) provide a copy of the minutes and reports on payment of a reasonable copying charge.

(9) The committee must report annually to the Legislative Assembly on the decisions made by the committee during the previous year.

(10) The report under subsection (9) must include the reports referred to in subsections (4) and (6).

Dissolution of Legislative Assembly

6 (1) After general voting day for a general election, the person holding the office of Speaker immediately before general voting day is deemed for the purposes of this Act to continue in office as Speaker until a Speaker designate is named.

(2) Subsection (1) does not apply if the Speaker is not re-elected at the general election, and in that event the person who last held the office of Deputy Speaker is for the purposes of this Act deemed to be the Speaker until a Speaker designate is named.

(3) If a Speaker designate is named, he or she is deemed to be Speaker for the purposes of this Act.

(4) If neither the Speaker nor the Deputy Speaker is re-elected at the general election, a committee consisting of the minister, the Government House Leader and the

Appendix B

Opposition House Leader must carry on the day to day administration of the Legislative Assembly until a Speaker designate is named.

Appropriation

6.1 Money required to be provided by or paid on behalf of the government under this Act must be provided or paid by the Minister of Finance from money appropriated for that purpose by the Legislative Assembly or, in the absence of an adequate appropriation for that purpose, from the consolidated revenue fund.

Conflicts

7 If there is any conflict or inconsistency between

(a) this Act or a minute of the committee issued under this Act, and

(b) the *Financial Administration Act* or any regulation or directive made or given under it,

then, despite the *Financial Administration Act*, this Act or the minute of the committee prevails.

Power to make regulations

8 (1) The Lieutenant Governor in Council may make regulations as follows:

(a) providing for the security of the Legislative Precinct;

(b) regulating, permitting or prohibiting use of the Legislative Precinct by the public or by other persons.

(2) The Lieutenant Governor in Council may make regulations establishing penalties for failure to comply with the regulations made under this section.

SCHEDULE

CONFEDERATION GARDEN PARK

All those parcels of land in the City of Victoria with the following legal descriptions:

Parcel Identifier: 009-386-980
Lot 890, Victoria City

Parcel Identifier: 009-387-021
Lot 891, Victoria City

Parcel Identifier: 009-387-030
Lot 894, Victoria City

Parcel Identifier: 009-387-056
Lot 995, Victoria City.

Queen's Printer for British Columbia©
Victoria, 2004

Appendix C: Our Audit Criteria

We agreed with management to use the Auditor General of Canada's Financial Management Capability Framework, and that the Control Level of the Framework provided an appropriate level of assurance to Members. The audit criteria are as follows:

Control Environment: *A climate or culture within an organization that will help it to achieve its control objectives.*

Criterion 1: There is a senior management team that is responsible and accountable for promoting standards, ethics and integrity, and for establishing a culture throughout the organization that emphasizes the importance of the Office's control framework.

Criterion 2: Organizational structure, policies and control systems are in place to provide assurance to the Speaker and other senior legislators that accountability relationships are clear.

Criterion 3: All employees both understand the control framework and their role in it, and are fully involved and committed to the process.

Criterion 4: The resources and authority assigned to managers are commensurate with delegated responsibilities and results expected.

Internal Control Management: *Internal control framework that will provide management with reasonable assurance that:*

- All transactions are completely and accurately recorded on a timely basis;
- Assets are safeguarded and protected from fraud and losses of all kinds; and
- Resources are received and used in accordance with applicable laws and regulations.

Criterion 1: There is an internal control framework that meets the needs of the Office and its key stakeholders, and complies with legislative requirements.

Appendix C

Data Management: The control and safeguard of both financial and non-financial data as assets of the organization to ensure their integrity, reliability and availability.

Criterion 1: Data management systems are designed to collect and protect data, and ensure their integrity and that these data system meet users' needs.

Criteria 2: Financial and non-financial data is collected and processed completely and accurately on a timely basis.

General Accounting: The Office maintains proper books of account that record its financial transactions accurately, completely and in a timely manner. The financial data that result from this process provides the basis for timely and effective business decisions.

Criteria 1: Financial data, books of account and financial reports are complete, accurate and prepared on a timely basis.

Stewardship Reporting: To satisfy legislative or statutory reporting requirements and support decision making by both: requiring managers to account for the use of resources; and producing timely and reliable operational and financial reports to account for the use of resources.

Criterion 1: Stewardship reports are complete, accurate, timely and approved and that they comply with legislative and statutory requirements.

Planning and Budgeting: Support strategic planning and decision making and serve accountability by enabling managers to plan for the resources they need to deliver a product or service.

Criterion 1: Operational results, such as expected outputs and desired outcomes, are established and communicated.

Criterion 2: A documented financial plan is prepared that includes supporting estimates and assumptions, is approved by senior management, and complies with legislated requirements, justifies the resources needed, provides a basis for control and can be used to hold managers accountable.

Criterion 3: A realistic budget is prepared, negotiated and approved and provides enough resources to achieve the intended objectives.

Appendix C

Funding: *The organization has the necessary funds (or resources) to carry out its mandate and meet its operational requirements.*

Criterion 1: The Office has enough funds to meet its needs.

Criterion 2: The Office controls organizational funding.

Operations Control: *The organization tracks its progress toward achieving desired results against resources used to ensure that adequate resources are available to achieve planned results.*

Criterion 1: The activities of operating units are monitored, including the quality of products and services produced against resources used to ensure that managers can meet their planned objectives.

Criterion 2: The financial implications of any changes to plans are quickly assessed.

Appendix D: Office of the Auditor General Performance Auditing Standards

Performance audit (also known as value-for-money audit) is one of the main elements of comprehensive, public sector auditing. Our performance audit work is subject to standards prescribed by the Canadian Institute of Chartered Accountants (CICA) for all audit work, as well as specific standards for value-for-money auditing in the public sector.

The CICA standards for our performance audit work are intended to apply to audits in the following areas:

- The value-for-money obtained from management systems, controls and practices, including those intended to safeguard assets.
- The value-for-money obtained from the management of public resources.
- The effectiveness of public programs, operations or activities.

These audits can be carried out for an organization, or only part of an organization, such as a programme, management control system or organizational unit.

The standards limit the assurance we can provide to two distinct levels:

- Audit — a high, though not absolute, level of assurance. Our work generally includes a combination of inspection, observation, enquiry, confirmation, computation, analytical procedures and discussion. Absolute assurance is not possible, due to a number of factors: some use of judgement is often needed, sample testing, rather than 100%, is sometimes used controls have in-built limitations, our evidence that is usually more persuasive rather than conclusive, and the fact that we often work in areas that lack absolute precision.
- Review — a moderate level of assurance. Our work generally includes enquiry, analytical procedures and discussion. The evidence available and our findings are often seen as plausible rather than persuasive or conclusive.

Appendix D

The Office prefers to carry out audits rather than reviews, as audits provide the highest level of assurance to legislators and the public.

There are two forms of reporting used in performance auditing:

- Attestation — where we provide an audit opinion on whether management's public reporting of their value-for-money performance is fair or not.
- Direct — where we use suitable audit criteria to directly evaluate whether value-for-money has been achieved.

Although attestation reporting is a better link between those that are accountable and who they are accountable to, the Office has tended to use direct reporting to assess whether value-for-money is being achieved by government.

Our performance audits are not designed to assess whether government policies are appropriate or effective. Our mandate does not permit us to assess government policies, as the creation of and changes to them are the responsibility of legislators.

At the start of each audit we discuss the scope and criteria with management. We maintain regular communication with them throughout the audit and at its conclusion discuss our findings. A draft report also is provided, to confirm its factual content, and for management to provide a formal response to our findings and recommendations. The final report, including management's response, is then provided to the Speaker of the Legislative Assembly, who lays it before the House. The report is normally then referred to the Select Standing Committee on Public Accounts.

All our performance audits are subject to the practice standards prescribed in our Performance Audit Manual. This contains a performance audit policy framework as well as technical guidance for audit staff. In addition, all performance audits are subject to the standards in our Quality Assurance Manual. This sets quality standards for all our work for the Legislative Assembly. Both of these manuals reflect relevant CICA standards and address the values that guide our work, such as integrity, independence and professionalism.

Appendix E: Office of the Auditor General: 2007/2008 Reports Issued to Date

Report 1 - April 2007

Special Audit Report to the Speaker: The Financial Framework Supporting the Legislative Assembly.

This report and others are available on our website at: http://www.bcauditor.com

OFFICE OF THE
Auditor General
of British Columbia

BACKGROUNDER

REPORT HIGHLIGHTS **April 2007**

SPECIAL AUDIT REPORT TO THE SPEAKER: THE FINANCIAL FRAMEWORK SUPPORTING THE LEGISLATIVE ASSEMBLY

The Legislative Assembly employs about 350 full-time-equivalent staff and spends almost $50 million a year to support the work of the province's elected representatives. While in some respects it differs significantly from ministries or Crown agencies, like any organization it requires a wide range of support services. Key among these is a financial management framework to help achieve its objectives and account for the cost doing so.

The administration of the Legislative Assembly is overseen by the Legislative Assembly Management Committee, chaired by the Speaker. The senior officer of the Legislative Assembly is the Clerk of the House.

The previous work we did in this area, which was a study as opposed to an audit, was to review the approval, monitoring and accountability arrangements for Vote 1, which provides the funds to support the activities of elected Members of the Legislative Assembly. Our report on that work, *Financial Administration of Vote 1*, was issued in 2000.

Why we did this audit

In 2006, the Speaker of the Legislative Assembly asked the Acting Auditor General to review the Assembly's financial framework – administered primarily by the Office of the Legislative Comptroller – and provide assurance that the framework is sound.

It was agreed that we would audit whether there was an effective financial management framework in place. To do this we used a financial management model developed by the Office of the Auditor General of Canada. Within this model, we selected a level of financial management that represents the basic elements of a stable control framework. While we didn't plan to test individual transactions to confirm whether the framework was being used as intended, our audit plan made it clear that we would if we felt it was necessary.

What we concluded

The financial framework used to support the work of the Legislative Assembly provides the basic elements of a stable control framework. Nevertheless, for the framework to deliver a higher level of financial management, further strengthening of aspects of the framework is required.

What we found and recommended

Although we concluded that the financial framework was materially sound, we did identify several areas for potential improvement.

- Management needs greater assurance about the effectiveness of the control framework in constituency offices.
- Certain areas within the control framework need to be more formal. For example, there are no policies or guidelines on internal control; there is no assurance provided to management that controls are operating as intended; and there are no documented procedures on how senior management should deal with significant variances.
- To ensure that financial or other systems remain available in the event of a major disaster, Business Continuity and Disaster Recovery Plans need to be completed and tested, and clear contingency arrangements need to be put into place.
- All general accounting activities should be performed regularly, such as bank reconciliations. Regular review of financial controls would have highlighted this.
- Reporting requirements to the Legislative Assembly Management Committee need to be clearer.
- More formal processes within strategic financial planning and monitoring are required.

We recommend that:

1. an internal audit provider be engaged to examine and report periodically to senior management on the operation of financial controls across all Vote 1 expenditure areas, including constituency offices;
2. clearer procedures, policies and guidelines for financial control be put into place, covering:
   - types and frequency of financial procedures performed, and financial control reports to be produced and reviewed by the senior management team; and
   - procedures for identifying, documenting and following up significant variances or changes to financial plans;
3. Business Continuity and Disaster Recovery Plans covering financial systems in the Legislative Assembly be completed and periodically tested;
4. financial reporting requirements to the Legislative Assembly Management Committee be established and include regular reporting and discussion of actual and budget spending, as well as publicly available audited annual financial statements for Vote 1; and
5. a more clearly documented process be put into place for the production and approval of the annual operating and capital budget, and that the roles of senior management and the Legislative Assembly Management Committee members be clarified.

For more information, please contact:
Office of the Auditor General, 8 Bastion Square, Victoria, B.C. V8V 1X4
Tel: 250 387-6803 or Toll free *Enquiry BC* at 1 800 663-7867 (in Vancouver 604 660-2421)
A copy of the full report is available on our website at: http //bcauditor com

OFFICE OF THE
Auditor General
of British Columbia

NEWS RELEASE

For Immediate Release
April 26, 2007

Auditor General reports on the financial framework at the Legislative Assembly

VICTORIA – Acting Auditor General, Arn van Iersel, released an audit report today that concludes that the financial framework supporting the work of the Legislative Assembly "is, in all material respects, sound."

Van Iersel acknowledged the independent and unique nature of the Legislative Assembly, but also pointed out that, like any other organization, it requires strong controls to manage day-to-day business. The administration of the Legislative Assembly may be small compared with a ministry or commercial Crown agency, said van Iersel, but "it is still a $50 million operation.

The audit, carried out at the request of the Speaker of the Legislative Assembly, does identify a number of possible improvements to the framework. Recommendations by the Acting Auditor General to address these gaps include using an internal audit provider to regularly examine financial controls, setting up more formal processes around financial procedures and reporting, making audited annual financial statements publicly available, completing and testing Disaster Recovery Plans, and clarifying the roles of senior management and the Legislative Assembly Management Committee.

The Speaker requested the audit to obtain assurance that the financial framework administered by the Office of the Legislative Comptroller is sound. Using a financial management model developed by the Auditor General of Canada, van Iersel's staff examined whether the basic elements of a stable financial control framework were in place.

Van Iersel noted that the audit looked for the "basic acceptable level" in a financial framework. Progressing to a more advanced level, he explained, would require additional improvements. He encourages further development of the financial framework to "help ensure that the Legislative Assembly attains the highest standards in financial accountability and control."

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